

Message Text

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SUBJECT: FINNISH GOVERNMENT ANNOUNCES NEW ECONOMIC PROGRAM

BEGIN UNCLASSIFIED

1. SUMMARY: AFTER DIFFICULT NEGOTIATIONS, FINNISH GOVERNMENT APRIL 1 ADOPTED ECONOMIC PROGRAM FOR NEXT FEW YEARS. COMMUNIST MINISTERS REFUSED TO ENDORSE ECONOMIC PROGRAM CHARGING IT WILL RESULT IN INCREASED UNEMPLOYMENT WHILE SHIFTING EMPHASIS TO REDUCTION OF TRADE DEFICIT AND GOVERNMENT EXPENDITURE. COMMUNISTS, HOWEVER, SAID THEY ARE NOT LEAVING GOVERNMENT. END SUMMARY.

2. GOVERNMENT'S LONG-AWAITED ECONOMIC PROGRAM WAS ANNOUNCED BY FINANCE MINISTER PAUL PAAVELA ON APRIL 1. IT IS DESCRIBED AS A 22 POINT "AUSTERITY" PROGRAM. PROGRAM CONTAINS NUMBER OF MEASURES TO IMPROVE FINLAND'S BALANCE OF PAYMENTS:

(A) MORE EFFECTIVE GOVERNMENT CONTROL OVER CAPITAL FLOWS SO AS TO INCREASE INVESTMENT IN
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EXPORT SECTOR.

(B) LIBERALIZATION OF DEPRECIATION TREATMENT OF MACHINERY USED IN EXPORT INDUSTRIES; GRANT OF INVESTMENT TAX CREDITS TO THOSE EXPORT FIRMS WHICH START CONSTRUCTION PROJECTS BEFORE FALL OF 1976 WHICH WILL BE IN OPERATION BEFORE SUMMER 1977.

(C) A STUDY OF FINLAND'S INTERNATIONAL COMPETITIVENESS TO PROPOSE METHODS WHEREBY FINNISH PRODUCTS MAY BECOME MORE COMPETITIVE IN EXPORT MARKETS.

(D) ESTABLISHMENT OF PROCEDURES FOR REPORTING PLANNED IMPORTS OF INVESTMENT GOODS SO THAT POTENTIAL DOMESTIC SUPPLIERS MAY HAVE CHANCE TO COMPETE.

(E) MORE EFFECTIVE METHODS TO INCREASE PROPORTION OF STATE PROCUREMENT FROM DOMESTIC SUPPLIERS.

(F) FURTHER STEP-UP OF EFFORTS TO GAIN FOR FINLAND A SHARE IN CONSTRUCTION PROJECTS RELATED TO FINNISH-SOVIET TRADE AND COOPERATION.

3. ON AUSTERITY SIDE OF ECONOMIC PROGRAM, THE GOVERNMENT ANNOUNCED ITS INTENTION TO REDUCE PLANNED PUBLIC EXPENDITURES BY AS MUCH AS FMK 650 MILLION DURING CURRENT YEAR. THIS WILL BE ACCOMPLISHED PRIMARILY BY POSTPONING SOME 1976 EXPENDITURES TO 1977. AMONG OTHER THINGS, GOVERNMENT CUT-BACKS WILL DELAY PURCHASE OF DEFENSE HARDWARE AND BUILD-UP OF STRATEGIC OIL STOCKPILE, RESULTING IN SAVINGS OF NEARLY FMK 200 MILLION FOR CURRENT YEAR. GOVERNMENT EXPENDITURE GROWTH NEXT YEAR TO BE HELD TO ONE PERCENT AND STATE-EMPLOYED LABOR FORCE INCREASE TO UNDER 1,000.

4. ECONOMIC PROGRAM REFERS TO PROBLEM OF UNEMPLOYMENT AND STATES THAT SECOND SUPPLEMENTARY BUDGET FOR MAINTENANCE OF EMPLOYMENT CAN BE EXPECTED BY END OF MAY. ECONOMIC PROGRAM ALSO INDICATES THAT GOVERNMENT SHOULD ATTEMPT ENSURE CONSTRUCTION OF 55,000 HOUSING UNITS IN 1977.

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5. OVER NEXT FIVE YEARS GOVERNMENT HOPES TO REDUCE FINLAND'S BALANCE OF PAYMENTS DEFICIT FROM FMK 8 BILLION TO FMK 2.5 BILLION. IN ORDER TO REDUCE ITS TRADE DEFICIT THAT MUCH, FINLAND WOULD HAVE TO FOREGO TWO YEARS OF GROWTH IN ITS NATIONAL INCOME, ACCORDING TO THE RESPECTED ECONOMIC AND COMMERCIAL NEWSPAPER KAUPPALEHTI.

6. THE FOUR COMMUNIST MINISTERS FILED MINORITY
OPINION ON ECONOMIC PROGRAM. THEY CRITICIZED PROGRAM
FOR NOT CLEARLY MAKING FULL EMPLOYMENT GOVERNMENT'S
FIRST PRIORITY. THEY CLAIM THAT ECONOMIC PROGRAM
WILL REDUCE GROWTH OF BOTH PRODUCTION AND CONSUMPTION.
THEY ALSO SAY THAT CENTRAL POINTS OF ECONOMIC PROGRAM
ARE INCONSISTENT. IN SPITE OF COMMUNIST MINISTERS
OPPOSITION TO GOVERNMENT'S NEW ECONOMIC
PROGRAM, THEY HAVE ANNOUNCED THAT THEY WILL NOT LEAVE
GOVERNMENT. END UNCLASSIFIED.

7. COMMENT: BEGIN LIMITED OFFICIAL USE. MIETTUNEN
GOVERNMENT INCLUDING COMMUNISTS, WHICH WAS PUT
TOGETHER BY PRESIDENT KEKKONEN LAST NOVEMBER,
SURVIVED THE LATE MARCH CRISIS OVER FINANCING OF ITS
FIRST SUPPLEMENTAL BUDGET (CONCENTRATING ON EMPLOYMENT
MAINTENANCE) ONLY BECAUSE OF KEKKONEN'S INTERVENTION
AND THE TEMPORARY SHELIVING OF THE MOST CONTENTIOUS
ISSUES. THE COMMUNIST EFFORT TO DISASSOCIATE THEM-
SELVES FROM UNPALATABLE MEASURES IN THE ECONOMIC
PROGRAM WHILE STILL REMAINING IN GOVERNMENT SHOWS
AGAIN THE FRAGILE NATURE OF MIETTUNEN'S COALITION.
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